

Message Text

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64

ACTION NEA-10

INFO OCT-01 ISO-00 SP-02 USIA-15 AID-05 EB-07 NSC-05

CIEP-02 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

COME-00 FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06 LAB-04

SIL-01 L-03 H-02 PA-02 PRS-01 AGRE-00 /099 W

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R 051114Z NOV 76

FM AMEMBASSY NEW DELHI

TO SECSTATE WASHDC 9370

AMCONSUL CALCUTTA

AMCONSUL BOMBAY

AMCONSUL MADRAS

UNCLAS NEW DELHI 16196

PASS TREASURY AND FRB

E.O. 11652: N/A

TAGS: EFIN, IN

SUBJECT: RBI MOVES TO FURTHER TIGHTEN CREDIT

REF: NEW DELHI 12568

SUMMARY: THE RESERVE BANK OF INDIA (RBI) HAS ONCE AGAIN STEPPED IN TO CONTROL MONEY SUPPLY BY RAISING FROM FIVE TO SIX PERCENT THE MINIMUM CASH RESERVES THAT COMMERCIAL BANKS HAVE TO MAINTAIN WITH THE RBI. BY THIS ACTION, THE RBI WILL BE IMPOUNDING OVER RS. 1.6 MILLION FROM THE LENDABLE RESOURCES OF THE BANKS. END SUMMARY

1. ON NOVEMBER 4, THE RBI ANNOUNCED FURTHER TIGHTENING OF CREDIT AND MADE REFINANCING BY THE COMMERCIAL BANKS MORE DIFFICULT AND SELECTIVE. AS OF NOVEMBER 13, THE CASH RESERVES REQUIRED TO BE MAINTAINED BY EVERY COMMERCIAL BANK WILL BE RAISED FROM FIVE TO SIX PERCENT WHICH WILL MEAN THE FURTHER IMPOUNDING OF OVER
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RS. 1.6 BILLION FROM THE BANKS. THIS FOLLOWS AN

INCREASE FROM FOUR TO FIVE PERCENT SEPTEMBER 4 WHICH RESULTED
IN FREEZING BANK DEPOSITS OF RS. 1.55 BILLION. THE
MINIMUM CASH AND LIQUIDITY REQUIREMENTS OF THE BANKS WILL
NOW BE 39 PERCENT OF DEMAND AND TIME LIABILITIES.
BANKS WILL BE PAID INTEREST OF 5.5 PERCENT PER ANNUM
ON THE ADDITIONALLY IMPOUNDED FUNDS.

2. RBI GOVERNOR PURI, IN A LETTER TO THE COMMERCIAL
BANKS, URGED THEM TO OBSERVE A GREATER MEASURE OF CREDIT
DISCIPLINE AND ENSURE THAT CREDIT WITHDRAWALS ARE STRICTLY
ALIGNED TO MINIMUM INESCAPABLE PRODUCTION REQUIREMENTS.
IN PLANNING NEW LENDING OPERATIONS BANKS SHOULD RECKON
WITH THE FACT THAT REDISCOUNT AND REFINANCE ASSISTANCE
FROM THE RBI WOULD BE EXTREMELY LIMITED AND SELECTIVE.

3. THE RBI MOVE WAS PROMPTED BY THE RAPID INCREASE
IN THE MONEY SUPPLY AND COMMODITY PRICES. THE MONEY
SUPPLY WITH THE PUBLIC INCREASED FROM APRIL 1 TO
OCTOBER 22 BY 9.7 PERCENT (RS. 12.24 BILLION) COMPARED
WITH AN INCREASE OF 4.6 PERCENT (RS. 5.360 BILLION)
IN THE CORRESPONDING PERIOD LAST YEAR. CONCURRENTLY,
THERE HAS BEEN CONTINUED PRESSURE ON COMMODITY PRICES
IN RECENT MONTHS. THE WHOLESALE PRICE INDEX (1961/2
EQUALS 100) HAD REACHED 313.3 FOR THE WEEK ENDING
OCTOBER 16, 1976 COMPARED TO 282.4 ON MARCH 20, 1976,
AN INCREASE OF 11 PERCENT. SAXBE

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